

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name TOWNSHIP OF CURTIS LIBRARY	County ALCONA
Audit Date	Opinion Date 05/26/2004	Date Accountant Report Submitted to State: 08/16/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

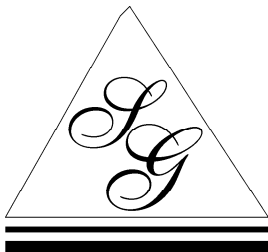
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature 		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.08.12 09:28:29 -0500 Reason: I am approving this document	



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

CURTIS TOWNSHIP LIBRARY
ALCONA COUNTY, MICHIGAN

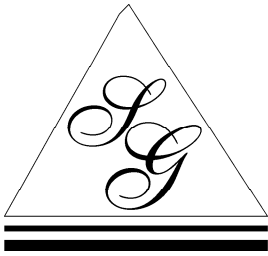
AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2003

I_N_D_E_X

PAGE

AUDITORS' REPORT

	INDEPENDENT AUDITORS' REPORT	1
EXHIBIT A	BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS	2
EXHIBIT B	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUND TYPES	3
EXHIBIT C	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL - SPECIAL REVENUE FUND	4
EXHIBIT D	NOTES TO FINANCIAL STATEMENTS	5 - 9
	REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	10



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

May 26, 2004

Independent Auditors' Report

Library Board
Curtis Township Library
Alcona County, Michigan

We have audited the accompanying general purpose financial statements of the Curtis Township Library, Alcona County, Michigan as of and for the year ended December 31, 2003, as listed in the index. These general purpose financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Curtis Township Library, Alcona County, Michigan as of December 31, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2004, on our consideration of the Curtis Township Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Stephenson, Gracik & Co., P.C.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

BALANCE SHEET -
 ALL FUND TYPES AND ACCOUNT GROUPS
December 31, 2003

	<u>Governmental Fund Type Special Revenue</u>	<u>Account Group General Fixed Assets</u>	<u>Totals (Memorandum Only)</u>
<u>ASSETS</u>			
Cash (Note 2)	\$ 13,803	\$ 0	\$ 13,803
Property, plant and equipment (Note 4)	<u>0</u>	<u>179,453</u>	<u>179,453</u>
Total Assets	<u>\$ 13,803</u>	<u>\$ 179,453</u>	<u>\$ 193,256</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Deferred revenue (Note 7)	\$ <u>2,001</u>	\$ <u>0</u>	\$ <u>2,001</u>
<u>Fund Equity</u>			
Investment in general fixed assets	0	179,453	179,453
Fund Balances:			
Unreserved:			
Undesignated	<u>11,802</u>	<u>0</u>	<u>11,802</u>
Total fund equity	<u>11,802</u>	<u>179,453</u>	<u>191,255</u>
Total Liabilities and Fund Equity	<u>\$ 13,803</u>	<u>\$ 179,453</u>	<u>\$ 193,256</u>

The accompanying notes to financial statements are an integral part of this statement.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2003

	Governmental Fund Type Special Revenue Fund
<u>Revenue</u>	
Current taxes	\$ 23,670
State revenue	572
Penal fines	8,945
Interest earned	242
Contributions from private sources	10,084
Other	5,195
Total revenue	<u>48,708</u>
<u>Expenditures</u>	
Salaries	12,936
Payroll taxes	975
Advertising	680
Office supplies	6,533
Operating supplies	9,002
Dues and subscriptions	160
Insurance and bonds	1,390
Utilities	3,924
Repairs and maintenance	768
Travel	1,283
Telephone	2,345
Licensing fees	172
Capital outlay	10,927
Other	824
Total expenditures	<u>51,919</u>
Excess of revenue over (under) expenditures	(3,211)
Fund balance - beginning of year	<u>15,013</u>
Fund balance - end of year	\$ <u><u>11,802</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
For the Year Ended December 31, 2003

	Special Revenue Fund		
	Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>			
Current taxes	\$ 23,670	\$ 23,670	\$ 0
State revenue	572	572	0
Penal fines	8,945	8,945	0
Interest earned	242	242	0
Contributions from private sources	4,834	10,084	5,250
Other	4,911	5,195	284
Total revenue	<u>43,174</u>	<u>48,708</u>	<u>5,534</u>
<u>Expenditures</u>			
Salaries	13,177	12,936	241
Payroll taxes	975	975	0
Advertising	680	680	0
Office supplies	7,319	6,533	786
Operating supplies	9,002	9,002	0
Dues and subscriptions	160	160	0
Insurance and bonds	1,390	1,390	0
Utilities	3,924	3,924	0
Repairs and maintenance	786	768	18
Travel	1,283	1,283	0
Telephone	2,345	2,345	0
Licensing fees	172	172	0
Capital outlay	3,389	10,927	(7,538)
Other	824	824	0
Total expenditures	<u>45,426</u>	<u>51,919</u>	<u>(6,493)</u>
Excess of revenue over (under) expenditures	(2,252)	(3,211)	(959)
Fund balance - beginning of year	<u>15,013</u>	<u>15,013</u>	<u>0</u>
Fund balance - end of year	<u>\$ 12,761</u>	<u>\$ 11,802</u>	<u>\$ (959)</u>

The accompanying notes to financial statements are an integral part of this statement.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Library's Operations

The Curtis Township Library operates under the supervision and control of a six member Board of Trustees. The Library was established to maintain and operate a public library for the Township. The financial statements of the Library have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Library's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Library exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

These financial statements have been combined with the Township of Curtis' general purpose financial statements and are presented as a discrete component unit to the Township.

B. Basis of Presentation

The financial activities of the Curtis Township Library are recorded in separate funds and account groups, categorized and described as follows:

1. Governmental Fund:

Special Revenue Fund - This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

2. Account Group:

General Fixed Assets Account Group - This account group presents the fixed assets of the Library utilized in its general operations.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Library, available means expected to be received within 60 days of the fiscal year-end.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Nonexchange transactions, in which the Library receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Library must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Library on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

The Curtis Township Library utilizes the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

1. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

For the current year, the taxable value for properties located within the Township was \$50,046,142. The tax rate was .4846 mills for the Library.

2. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
3. Normally, expenditures are not divided between years by the recording of prepaid expenses.
4. Payrolls and other costs are recognized as incurred.

D. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

E. Inventories

Inventories have not been recognized in the financial statements as they are not material and have been expensed when purchased.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting

The Library normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Library director submits to the Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain comments.
3. Prior to January 1, the budget is legally enacted through Board approval.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Library Board.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Library Board.

NOTE 2 - DEPOSITS AND INVESTMENTS

The captions on the financial statements for the deposit accounts are as follows:

	<u>Deposits</u>
Cash	<u>\$ 13,803</u>

Deposits are carried at cost. Deposits of the Library are held at Northland Area Federal Credit Union in the name of the Library. At December 31, 2003 the carrying amounts of the Library's deposits were classified as to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	<u>\$ 13,803</u>	<u>\$ 16,262</u>

Investments:

The Library Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Library to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2003

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: (Continued)

- * Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Library's deposits are in accordance with statutory authority.

NOTE 3 - UNEMPLOYMENT COMPENSATION

The Library is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Library must reimburse the Employment Agency for all benefits charged against the Library. No liabilities have been incurred as of December 31, 2003.

NOTE 4 - CHANGES IN GENERAL FIXED ASSETS

All fixed assets of the Library used in Governmental fund type operations are general fixed assets. These assets are accounted for by placing them in a single, self-balancing group of accounts called the General Fixed Assets Account Group. The acquisition of these assets by the Library is accounted for as an expenditure in the special revenue fund and also as an increase in the General Fixed Assets Account Group. All purchased fixed assets are recorded at the historical cost or estimated historical cost if actual cost is not available. All donated fixed assets are capitalized at their fair market value at the date of donation. No depreciation is taken on the general fixed assets.

Summary of changes in general fixed assets follows:

	Balance <u>1/1/03</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/03</u>
<u>Property, Plant and Equipment</u>				
Land improvements	\$ 7,733	\$ 0	\$ 0	\$ 7,733
Building and improvements	107,521	0	0	107,521
Furniture, fixtures and equipment	<u>53,572</u>	<u>10,927</u>	<u>300</u>	<u>64,199</u>
	<u>\$ 168,826</u>	<u>\$ 10,927</u>	<u>\$ 300</u>	<u>\$ 179,453</u>

NOTE 5 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the Library for these budgetary funds were adopted to the activity level.

CURTIS TOWNSHIP LIBRARY
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2003NOTE 5 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS (CONTINUED)

During the year ended December 31, 2003, the Library incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Activity</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Special Revenue: Capital outlay	\$ 3,389	\$ 10,927	\$ 7,538

NOTE 6 - RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Library continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 7 - DEFERRED REVENUE

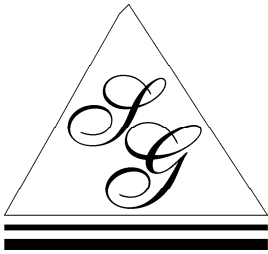
Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied. Deferred revenue represents grants and entitlements received before the eligibility requirements were met.

NOTE 8 - TOTAL COLUMNS ON FINANCIAL STATEMENTS

Total columns on the financial statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

NOTE 9 - NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Library is required to implement this standard for the fiscal year ending December 31, 2004. The Library has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

May 26, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Library Board
Curtis Township Library
Alcona County, Michigan

We have audited the general purpose financial statements of the Curtis Township Library as of and for the year ended December 31, 2003, and have issued our report thereon dated May 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Curtis Township Library's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Curtis Township Library in a separate letter dated May 26, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Curtis Township Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Curtis Township Library's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

Separation of Duties in the Performance of Functions

The present system of internal accounting controls does not provide for separation of duties in the performance of functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks, without access to noncash accounting records and not involved in reconciling bank accounts. To minimize the above deficiency, the Township Treasurer prepares bank reconciliations and all checks require dual signatures by a board member or other designated person.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management, the Library Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

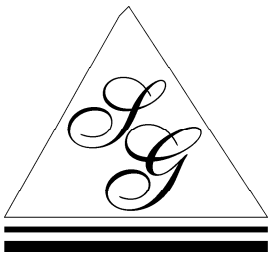
Stephenson, Gracik & Co., P.C.

- 10 -

Offices:
East Tawas
West Branch

325 Newman Street, East Tawas, MI 48730
www.stephensongracik.com
989-362-4491 . 989-362-8351 Fax

Members:
A.I.C.P.A.
M.A.C.P.A.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

May 26, 2004

Members of the Township Board
Curtis Township Library
Alcona County, Michigan

Dear Board Members:

We have audited the general purpose financial statements of the Curtis Township Library for the year ended December 31, 2003, and have issued our report thereon dated May 26, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated February 18, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the Curtis Township Library's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the Curtis Township Library's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Curtis Township Library are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Curtis Township Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Curtis Township Library's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Curtis Township Library, either individually or in the aggregate, indicate matters that could have a significant effect on the Curtis Township Library's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Curtis Township Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations.

Separation of Duties in the Performance of Functions

The present system of internal accounting controls does not provide for separation of duties in the performance of functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals and that all petty cash invoices get Board approval. Cash receiving should be centralized in a person without authority to sign checks, without access to noncash accounting records and not involved in reconciling bank accounts. To minimize the above deficiency, the Township Treasurer prepares bank reconciliations and all checks require dual signatures by a board member or other designated person.

Budget Control

The Curtis Township Library's special revenue fund included expenditures in one function that exceeded appropriated amounts. We recommend that the Library Board amend the budgets as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Library.

This information is intended solely for the use of management, Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grubb & Co., P.C.